INFORMATION BULLETIN

2009-8

December 10, 2009

Changes to the investment tax credit for manufacturing and processing equipment and certain other tax assistance allowed in the resource regions

This information bulletin provides a detailed description of the application details of the changes to the investment tax credit for manufacturing and processing equipment, as well as the tax assistance measures currently available in the resource regions.

The objective is to encourage manufacturers to invest more in a particularly difficult economic context, to increase the economy's productivity. In addition to supporting the resource regions, the new measures will ease the transition towards a tax system more focused on investment.

More specifically, the announced measures consist of a rise in the rate of investment tax credit, an extension of the refundable tax credits allowed in the resource regions and the introduction of additional tax assistance in certain activity sectors, including the processing of sea products.

For information concerning the matters dealt with in this information bulletin, contact the Secteur du droit fiscal et de la fiscalité at 418 691-2236.

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Finances Québec

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1. BACKGROUND

Québec's tax system contains many incentives for businesses. Some are designed, among other things, to foster economic development in the resource regions. Others are aimed at companies that make investments in target sectors.

Refundable tax credits allowed in the resource regions

During 2000 and 2001, three tax credits were set up to encourage job creation in Québec's resource regions. They are the tax credit for processing activities in the resource regions,[1] the tax credit for the Vallée de l'aluminium[2] and the tax credit for Gaspésie and certain maritime regions of Québec.[3]

Generally, these tax credits are granted with respect to the increase in payroll attributable to eligible employees of an eligible corporation operating in a targeted region and carrying on a certified business there, i.e. a business regarding which an eligibility certificate has been issued by Investissement Québec. This increase is determined using the payroll attributable to eligible employees of the eligible corporation for its reference calendar year, which corresponds, generally speaking, to the calendar year preceding the one when the corporation began to carry on its certified business.

1 MINISTÈRE DES FINANCES DU QUÉBEC, *2001-2002 Budget – Additional Information on the Budgetary Measures*, March 29, 2001, Section 1, p. 37.

2 MINISTÈRE DES FINANCES DU QUÉBEC, *2000-2001 Budget – Additional Information on the Budgetary Measures*, March 14, 2000, Section 1, p. 46.

3 MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin* 2000-8, November 17, 2000, p. 1.

Tax holiday for manufacturing SMEs in remote resource regions

A tax holiday regarding manufacturing small and medium-size enterprises (SMEs) in remote resource regions was also introduced as part of the March 29, 2001 budget.[4] Accordingly, in general, a corporation all of whose activities consist mainly in carrying on a manufacturing or processing business in a remote resource region in Québec can receive, until December 31, 2010, a tax holiday of 75%[5] in relation to such business, with respect to income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF). A corporation benefits fully from the 75% tax holiday for a taxation year where its paid-up capital applicable for such year, calculated on a consolidated basis, does not exceed $20 million. It is reduced linearly where its paid-up capital, so calculated, is between $20 million and $30 million. No tax holiday is allowed where its paid-up capital, so calculated, is $30 million or more. In addition, to be eligible for the tax holiday, a corporation must not have establishments, for the purposes of the Taxation Act, outside the remote resource regions, apart from certain exceptions.[6]

Investment tax credit for manufacturing and processing equipment

In the March 13, 2008 Budget Speech,[7] an investment tax credit for manufacturing and processing equipment was introduced to enable all corporations operating in the manufacturing sector to become more competitive on a lasting basis. Briefly, an eligible corporation that makes an eligible investment, during a taxation year, can receive an investment tax credit, for such year, of up to 40% of the amount of the eligible investment.

4 MINISTÈRE DES FINANCES DU QUÉBEC, note 1 above, p. 28.

5 The level of the tax holiday was changed over time and currently stands at 75%. It was initially 100%.

6 Where all or almost all the corporation's payroll, for a taxation year, is attributable to employees working in an establishment located in a remote resource region, such corporation is then deemed to have establishments only in such remote resource region during such taxation year.

7 MINISTÈRE DES FINANCES DU QUÉBEC, *2008-2009 Budget — Additional Information on the Budgetary Measures*, March 13, 2008, Section A, p. A.60.

Major changes to reflect the current economic situation

The objective targeted by the implementation of these various tax assistance measures was to direct government intervention towards businesses in every region of Québec, while considering the specific situation of businesses in regions that face additional costs as a result of their distance from urban regions.

To promote investment in Québec and foster a smoother transition among the various tax assistance measures, while improving fairness among regions and considering the current economic situation, changes will be made to the investment tax credit for manufacturing and processing equipment, to the three refundable tax credits allowed in the resource regions and the tax holiday for manufacturing SMEs in the remote resource regions.[8]

8 The terms and conditions relating to the changes announced in this information bulletin will be found, as the case may be, in the tax legislation or in the framework legislation consolidating the non-tax parameters of certain fiscal measures and whose introduction was announced in Information Bulletin 2007-10 of December 20, 2007, on page 16.

2. CHANGES TO THE INVESTMENT TAX CREDIT FOR MANUFACTURING AND PROCESSING EQUIPMENT

Briefly, an eligible corporation that makes an eligible investment, during a taxation year, can receive an investment tax credit, for such year, corresponding, where the base rate is applicable, to 5% of the amount of the eligible investment. This rate can rise to 20% where the eligible investment is made in an intermediate zone, to 30% where the investment is made in the Bas-Saint-Laurent region and to 40% where the investment is made in a remote zone.

Intermediate zones consist of the territory in the following administrative regions:

— Saguenay–Lac-Saint-Jean (region 02);

— Mauricie (region 04);

— in Outaouais (region 07), the La Vallée-de-la-Gatineau RCM and the Pontiac RCM;

— in Laurentides (region 15), the Antoine-Labelle RCM.

Remote zones consist of the territory in the following administrative regions:

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie–Îles-de-la-Madeleine (region 11).

The eligible investment is considered to be made in an intermediate zone, in the Bas-Saint-Laurent region or in a remote zone where the asset covered by the investment is acquired for use mainly in any of these areas.

The investment tax credit to which an eligible corporation is entitled, for a taxation year, can be deducted from income tax and tax on capital otherwise payable by such corporation for such taxation year. The excess can be refunded, in whole or in part, or carried forward.

For an eligible corporation to benefit fully from the higher rate and the refundability of the investment tax credit for a taxation year, its paid-up capital, applicable for such year, calculated on a consolidated basis, must not exceed $250 million. Moreover, an eligible corporation may receive a partial refund and part of the increase rate of the credit where its paid-up capital applicable for such year, calculated on a consolidated basis, is between $250 million and $500 million. Refundability and the increase in the rate of the tax credit decline linearly for paid-up capital, so calculated, between $250 million and $500 million. A corporation whose paid-up capital so calculated reaches $500 million can receive only the base rate of 5% and no part of the tax credit is refundable. Any non-refundable portion of the tax credit can be carried forward.

In addition, an eligible corporation can benefit from a higher rate and the refundability of the investment tax credit, for a taxation year, only regarding its eligible investments that do not exceed a cumulative limit of $75 million of eligible investments that can benefit from a higher rate, refundability or both these benefits. Briefly, such cumulative limit of $75 million is reduced by the eligible investments made by the eligible corporation and by the corporations with which it is associated,[9] during its taxation years ended during the 24-month period preceding the beginning of the given taxation year of the eligible corporation, and that could enable the eligible corporation (or a corporation associated with it) to benefit from a higher rate, refundability or both these benefits.[10]

Eligible corporations may receive the tax credit for eligible investments made before January 1, 2016.

As mentioned earlier, Québec's territory has been divided into various zones or regions that determine the maximum rate of the investment tax credit available to eligible corporations with respect to eligible investments made within the limits of these zones or regions. To improve fairness among the regions, while fostering investment in Québec's various regions, an increase in the rate of the tax credit will be allowed for regions where such increase is not currently available and the increase currently stipulated for the Bas-Saint-Laurent region will be reduced for the western part of that region.

2.1 Increase in the base rate of the investment tax credit for certain regions

The rate of the investment tax credit that may be claimed by an eligible corporation that makes an eligible investment in Québec outside the intermediate zones, the Bas-Saint-Laurent region and the remote zones, which currently corresponds to the base rate of 5%, will be increased to 10%.[11] This increase of 5% will be subject to the same rules as those applicable to the other increases.

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9 Special rules are stipulated, in particular for a member corporation of a partnership or assets used in the course of a joint venture. See: MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2009-6*, October 29, 2009, p. 8.

10 The cumulative limit of $75 million of an eligible corporation, for a taxation year, must also be reduced by the eligible investments made by the eligible corporation and by the corporations with which it is associated, during their taxation years ended during the 24-month period preceding the beginning of the given taxation year of the eligible corporation, and that could have enabled the eligible corporation to benefit from refundability had it not had income tax or tax on capital allowing it to fully utilize the tax credit.

11 The territories covered by this increase are the following administrative regions: Capitale-Nationale (region 03), Estrie (region 05), Montréal (region 06), Outaouais (region 07) excluding the La Vallée-de-la-Gatineau RCM and the Pontiac RCM, Chaudières-Appalaches (region 12), Laval (region 13), Lanaudière (region 14), Laurentides (region 15) excluding the Antoine-Labelle RCM, Montérégie (region 16) and Centre-du-Québec (region 17).

Accordingly, to benefit from the increased rate of 10%, an eligible corporation's paid-up capital, calculated on a consolidated basis, must not exceed $250 million. Moreover, where the paid-up capital of the eligible corporation, calculated on a consolidated basis, exceeds $250 million, this 10% rate must be reduced linearly until it reaches 5%.

Thus, where the investment is made in Québec outside the intermediate zones, the Bas-Saint-Laurent region and the remote zones, the rate of the applicable investment tax credit will be established using the following formula:

$$\text{Rate of the ITC} = 10\% - \left[5\% \times \frac{(\text{Paid-up capital calculated on a consolidated basis} - \$250 \text{ million})}{\$250 \text{ million}} \right]$$

In this formula, ITC means investment tax credit.

For example, the rate of the investment tax credit applicable to an eligible corporation whose paid-up capital is $375 million will be 7.5%[12] if the eligible investment is made in Québec outside the intermediate zones, the Bas-Saint-Laurent region and the remote zones.

Consequently, where the paid-up capital of an eligible corporation, calculated on a consolidated basis, is equal to or greater than $500 million, the 5% rate will apply.

Similarly, for an eligible corporation to benefit from the increased rate of 10% regarding an eligible investment made during a taxation year, such eligible investment must not exceed the $75-million cumulative limit of eligible investments of the corporation for such taxation year. For greater clarity, for the determination of the cumulative limit of an eligible corporation for a given taxation year, an eligible investment made prior to such taxation year and benefiting, in whole or in part, from this increased rate will also reduce the cumulative limit of the eligible corporation and the corporations with which it is associated according to the rules that are currently applicable.

Lastly, an eligible investment made in Québec outside the intermediate zones, the Bas-Saint-Laurent region and the remote zones, by a partnership or as part of a joint venture, may also give rise to this increase in the rate of the investment tax credit according to the rules that are currently applicable.[13]

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12 I.e. 10% - [5% x ($375 million - $250 million) / $250 million] = 7.5%.

13 For greater clarity, for the determination of the cumulative limit of a corporation or joint venture, for a given fiscal year, an eligible investment made prior to such fiscal year and benefiting, in whole or in part, from this increase in the rate of tax credit will also reduce its cumulative limit according to the rules that are currently applicable.

2.2 Reduction of the increase in the rate of investment tax credit for the western portion of the Bas-Saint-Laurent administrative region

The rate of the investment tax credit that may be claimed by an eligible corporation that makes an eligible investment in the Bas-Saint-Laurent administrative region is currently increased to 30%. This increase in the rate of investment tax credit applicable to an eligible investment made in the western portion of the Bas-Saint-Laurent administrative region will be reduced so that the increased rate henceforth will be 20%. For greater clarity, the increased rate applicable to the eastern portion of the Bas-Saint-Laurent administrative region will remain at 30%.

An eligible investment will be considered made in the eastern portion of the Bas-Saint-Laurent administrative region where the asset covered by such investment is acquired for use mainly in the territories included in the following RCMs:

— the La Matapédia RCM;

— the Matane RCM;

— the La Mitis RCM.

An eligible corporation that makes such an investment may then claim the investment tax credit whose rate may reach 30%.

An eligible investment will be considered made in the western portion of the Bas-Saint-Laurent administrative region, i.e. in an intermediate zone, where the asset covered by such investment is acquired for use mainly in the territories included in the following RCMs:

— the Rivière-du-Loup RCM;

— the Rimouski-Neigette RCM;

— the Témiscouata RCM;

— the Kamouraska RCM;

— the Les Basques RCM.

An eligible corporation that makes such an investment may then claim the investment tax credit whose rate may reach 20%.

2.3 Other rules maintained

For greater clarity, all the other rules that currently apply to the investment tax credit, in particular those concerning the $75-million cumulative limit and those concerning paid-up capital that have an impact on the rate of the tax credit and its refundability, remain unchanged. For example, an eligible investment made by an eligible corporation that has already reached its $75-million cumulative limit will enable the eligible corporation to obtain an investment tax credit at the base rate of 5%, regardless of where in Québec the eligible investment is made. Similarly, an eligible corporation with paid-up capital equal to or greater than $500 million may obtain an investment tax credit at the base rate of 5%, regardless of where in Québec the eligible investment is made.

2.4 Application date

The changes relating to the rate of the investment tax credit will apply regarding eligible investments made after the day of publication of this information bulletin.

However, the former rate applicable to investments made in the western portion of the Bas-Saint-Laurent administrative region (increased rate of 30%) will continue to apply regarding an eligible investment made on or after the day of publication of this information bulletin, and before January 1, 2011, where:

— either the asset covered by such investment is acquired in accordance with a written obligation contracted before the day of publication of this information bulletin;

— or the construction, by the taxpayer or on his behalf, of such asset had started before the day of publication of this information bulletin.

3. CHANGES TO THE THREE REFUNDABLE TAX CREDITS ALLOWED IN THE RESOURCE REGIONS AND TO THE TAX HOLIDAY FOR MANUFACTURING SMEs IN REMOTE RESOURCE REGIONS

3.1 Review of the terms and conditions of the three refundable tax credits allowed in the resource regions

In general, the three refundable tax credits allowed in the resource regions apply to the increase in payroll attributable to eligible employees of an eligible corporation operating in a target region. This increase is determined using the payroll attributable to eligible employees of the eligible corporation for its reference calendar year, which corresponds, generally speaking, to the calendar year preceding the one when the corporation began to carry on its certified business. Accordingly, to receive any of the three refundable tax credits allowed in the resource regions, a corporation must carry on a certified business, i.e. a business regarding which an eligibility certificate has been issued by Investissement Québec and whose activities target in particular the manufacturing and processing sectors.

Tax credit for processing activities in the resource regions

To be eligible for the tax credit for processing activities in the resource regions, a corporation must, in particular, have started to carry on its certified business no later than March 31, 2008. A corporation eligible for the tax credit for processing activities in the resource regions may continue to receive this tax credit until it expires, on December 31, 2010, at the 30% rate. In such a case, such eligible corporation can receive the investment tax credit only for its eligible investments made as of the taxation year following the one that includes December 31, 2010.

However, for a taxation year ending after March 13, 2008 and subsequent taxation years, such a corporation can irrevocably elect to receive the investment tax credit instead of the tax credit for manufacturing and processing activities in the resource regions. Making this election irrevocably withdraws the right to the tax credit for manufacturing and processing activities in the resource regions that the corporation could have claimed for the calendar year ending during the taxation year of the election and for subsequent calendar years.

Tax credit for the Vallée de l'aluminium

A corporation eligible for the tax credit for the Vallée de l'aluminium can receive this tax credit until December 31, 2015.

An eligible corporation that began carrying on its certified business no later than March 31, 2008 can claim this tax credit until December 31, 2010 at the 30% rate, and the increase in its payroll is determined on the basis of the payroll attributable to its eligible employees for the calendar year preceding the one when it began to carry on its certified business (reference calendar year). For calendar years 2011 to 2015, such a corporation can receive the tax credit for the Vallée de l'aluminium at a rate of 20%. However, the reference calendar year of the eligible corporation is changed and then corresponds to calendar year 2010. In that case, such eligible corporation can receive the investment tax credit, for its eligible investments made as of such taxation year, and the tax credit for the Vallée de l'aluminium, only for the taxation year following the one that includes December 31, 2010. The rate of the investment tax credit, where the eligible investment is made in the Saguenay–Lac-Saint-Jean administrative region, can reach 20%.

However, in the case where the eligible corporation wishes to receive the investment tax credit sooner, it may elect to claim this tax credit as of a taxation year ending after March 13, 2008 and for subsequent taxation years. For its calendar year ending in the taxation year of such election, as well as for subsequent calendar years, the corporation may then receive, in addition to the investment tax credit, the tax credit for the Vallée de l'aluminium at the reduced rate of 20%. The reference calendar year of the corporation, for the purposes of the tax credit for the Vallée de l'aluminium, is then changed to correspond to the calendar year preceding the one in respect of which the election is made. Making this election irrevocably withdraws the right to the tax credit for the Vallée de l'aluminium at the 30% rate that the corporation could have claimed for the calendar year ending in the taxation year of such election and for subsequent calendar years.

A corporation eligible for the tax credit for the Vallée de l'aluminium that began to carry on its certified business after March 31, 2008, but no later than December 31, 2015, can claim the tax credit for the Vallée de l'aluminium at the 20% rate until December 31, 2015. Generally, its reference calendar year corresponds[14] to the calendar year preceding the one in which it began to carry on its certified business. Such an eligible corporation may also claim the investment tax credit.

14 A single reference calendar year can apply to a corporation for all the refundable tax credits granted in the resource regions. Accordingly, a corporation that carries on a certified business for the purposes of any of these tax credits will keep the same reference calendar year even if, subsequently, it begins to carry on another certified business.

Tax credit for Gaspésie and certain maritime regions of Québec

The terms and conditions applicable to the tax credit for Gaspésie and certain maritime regions of Québec are similar to those applicable to the tax credit for the Vallée de l'aluminium, with the exception of the rates of the tax credit. Accordingly, an eligible corporation that began to carry on its certified business no later than March 31, 2008, can claim the tax credit for Gaspésie and certain maritime regions of Québec at the 40% rate, unless it irrevocably elects to receive both this tax credit and the investment tax credit, in which case the 40% rate is reduced to 20%.[15] Similarly, where the corporation begins to carry on its certified business after March 31, 2008 but no later than December 31, 2015, it can claim the investment tax credit and the tax credit for Gaspésie and certain maritime regions of Québec at the 20% rate. The rate of the investment tax credit, where an eligible investment is made in the territory covered by the tax credit for Gaspésie and certain maritime regions of Québec, may reach 30% or 40%, depending on where the investment is made.

3.2 Review of the terms and conditions of the tax holiday for manufacturing SMEs in remote resource regions

In general, a corporation all of whose activities consist mainly in carrying on a manufacturing or processing business in a remote resource region in Québec[16] can receive, until December 31, 2010, a tax holiday for manufacturing SMEs in remote resource regions at the rate of 75% in relation to such business, with respect to income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF). No limit applies to the tax bases covered by this tax holiday.

A corporation benefits fully from the 75% tax holiday for a taxation year where its paid-up capital applicable for such year, calculated on a consolidated basis, did not exceed $20 million. It is reduced linearly where its paid-up capital, so calculated, is between $20 million and $30 million. No tax holiday is allowed where its paid-up capital, so calculated, is $30 million or more.

15 Special rules apply to an eligible corporation carrying on a certified business in the sea farming sector or manufacturing of finished or semi-finished products in the marine biotechnology field. Accordingly, in general, an eligible corporation that carries on a certified business in one of these sectors can claim the tax credit for Gaspésie and certain maritime regions of Québec at the 40% rate until December 31, 2015. In addition, the tax credit is allowed on the total payroll attributable to the eligible employees of such certified business. Lastly, for taxation years ending after March 13, 2008, it may benefit from the tax credit for Gaspésie and certain maritime regions of Québec and the investment tax credit for eligible investments made after March 13, 2008.

16 The following administrative regions constitute Québec's remote resource regions: Bas-Saint-Laurent (region 01), Saguenay–Lac-Saint-Jean (region 02), Abitibi-Témiscamingue (region 08), Côte-Nord (region 09), Nord-du-Québec (region 10), Gaspésie–Îles-de-la-Madeleine (region 11), in Laurentides (region 15): the Antoine-Labelle RCM, in Outaouais (region 07): the La Vallée-de-la-Gatineau RCM and Pontiac RCM, and in Mauricie (region 04): the Mékinac RCM and the La Tuque agglomeration.

In addition, to be eligible for the tax holiday, a corporation must not have establishments, for the purposes of the Taxation Act, outside the remote resource regions, apart from certain exceptions.[17]

3.3 New system applicable as of 2010

A new system relating to the tax credit for processing activities in the resource regions will apply as of calendar year 2010. An eligible corporation can benefit from this new system until December 31, 2012. In addition, a further eligibility period for the new system will be allowed for certain regions, until December 31, 2015. An eligible corporation benefiting from the new system may also claim the investment tax credit, in accordance with the applicable terms and conditions and taking into account the changes announced in this information bulletin.

Moreover, a limit will be introduced so that the total tax assistance, in relation to the tax holiday for manufacturing SMEs in remote resource regions, the tax credit for processing activities in the resource regions (new system) an eligible corporation may receive, for a taxation year, may not exceed the amount obtained by adding a basic amount of $50 000 (subject to division among associated corporations) and an amount determined on the basis of the corporation's gross income.

A new system will also apply to corporations eligible for the tax credit the Vallée de l'aluminium or the tax credit for Gaspésie and certain maritime regions of Québec. Eligible corporations that began to carry on their certified business no later than March 31, 2008, may thus aggregate the benefits of the new system relating to the tax credit for the Vallée de l'aluminium or the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec and those of the investment tax credit.

In addition, the applicable terms and conditions of the tax credit for Gaspésie and certain maritime regions of Québec will be changed so that a corporation carrying on a certified business in the sea products processing sector receives this tax credit on all of its payroll attributable to its eligible employees in relation to such certified business.

In the March 13, 2008 Budget Speech,[18] the notion of certified business for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec was broadened to also cover, for the administrative region of Gaspésie—Îles-de-la-Madeleine, a business whose activities are manufacturing activities. Accordingly, in this context, changes will be made for the purposes of the tax credit for processing activities in resource regions to exclude the administrative region of Gaspésie—Îles-de-la-Madeleine from the eligible regions.

17 Supra, note 6.

18 MINISTÈRE DES FINANCES DU QUÉBEC, note 7 above, p. A.74.

Lastly, the notion of certified business, for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec will be changed to add manufacturing and processing activities of finished or semi-finished products from peat or slate, other than primary processing activities. Along with these changes, changes will be made to the notion of certified business, for the purposes of the tax credit for processing activities in resource regions to exclude these activities for the administrative regions of Bas-Saint-Laurent and Côte-Nord.

3.3.1 Tax credit for processing activities in the resource regions and tax holiday for manufacturing SMEs in remote resource regions

Old system relating to the tax credit for processing activities in the resource regions

Briefly, the tax credit for processing activities in resource regions, whose rate is 30%, is allowed regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in a resource region of Québec, until December 31, 2010.

The regions eligible for the tax credit for processing activities in the resource regions consist of the territories in the following administrative regions:

— Bas-Saint-Laurent (region 01);

— Saguenay–Lac-Saint-Jean (region 02);

— Mauricie (region 04);

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie—Îles-de-la-Madeleine (region 11);

— in Outaouais (region 07): the La Vallée-de-la-Gatineau RCM and the Pontiac RCM;

— in Laurentides (region 15): the Antoine-Labelle RCM.

To be eligible for this tax credit, a corporation must carry on a certified business, i.e. a business regarding which an eligibility certificate has been issued by Investissement Québec and whose secondary or tertiary processing activities are carried out, among others, in the wood, metals, non-metallic minerals processing or energy sectors, or constitute manufacturing and processing activities of finished or semi-finished products from peat or slate. In addition, the corporation must have started carrying on its certified business no later than March 31, 2008.

To determine its refundable tax credit for a given calendar year, an eligible corporation must compare its payroll attributable to its eligible employees for such given calendar year with that of its reference calendar year. Generally speaking, this reference calendar year corresponds to the calendar year preceding the one during which the corporation began to carry on a certified business.

In the May 24, 2007 Budget Speech,[19] it was announced that an annual indexing factor of 2% would be considered in the determination of this tax credit for calendar years 2008 and 2009. As part of the extension of the tax credit for processing activities in the resource regions announced in the March 13, 2008 Budget Speech,[20] the details for determining the tax credit were changed to also stipulate the application of the 2% annual indexing factor for 2010. Accordingly, the total wages paid by an eligible corporation to its employees will be reduced by 2% for calendar year 2008, by 4% for calendar year 2009 and by 6% for calendar year 2010.

Further to the terms and conditions currently applicable, a corporation eligible for the tax credit for processing activities in the resource regions may not claim both this tax credit and the investment tax credit for the same taxation year. This also applies to the member corporations of a group of associated corporations.

These terms and conditions of the tax credit for processing activities in resource regions, as summarized above, are defined in this information bulletin as the old system.

Election stipulated in the March 13, 2008 Budget Speech

A corporation eligible for the tax credit for processing activities in the resource regions that would otherwise be eligible for the investment tax credit may irrevocably elect, for a given taxation year, to receive the investment tax credit in lieu of the tax credit for processing activities in the resource regions. Making this election irrevocably withdraws the right to the tax credit for processing activities in the resource regions that the corporation could have claimed for the calendar year ending during such taxation year and subsequent calendar years.

Where a corporation eligible for the investment tax credit is associated, during a taxation year, with another corporation that is already eligible for the tax credit for processing activities in the resource regions, the election to claim the investment tax credit, for a taxation year ending after March 13, 2008, must be made jointly by the eligible corporation and by any other corporation with which it is associated. Making this election irrevocably withdraws entitlement to the tax credit for processing activities in the resource regions, according to the terms and conditions currently applicable, that the member corporations of the group of associated corporations could have claimed for the calendar year ending in the taxation year for which the election is made, and for subsequent calendar years.

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19 MINISTÈRE DES FINANCES DU QUÉBEC, *2007-2008 Budget – Additional Information on the Budgetary Measures*, May 24, 2007, Section A, p. A.20.

20 MINISTÈRE DES FINANCES DU QUÉBEC, note 7 above, p. A.68.

❑ New system relating to the tax credit for processing activities in the resource regions

A corporation that, as at December 31, 2009, is eligible for the tax credit for processing activities in the resource regions will be eligible, as of calendar year 2010, for the new system relating to the tax credit for processing activities in the resource regions.

■ Extension of the tax credit at a reduced rate and application of the investment tax credit for manufacturing and processing equipment

A corporation eligible for the new system relating to the tax credit for processing activities in the resource regions may receive this tax credit until December 31, 2012, at the following rates:

— 20% for calendar year 2010;

— 10% for calendar years 2011 and 2012.

The eligible regions for the purposes of the new system relating to the tax credit for processing activities in the resource regions will consist of the territories included in the administrative regions currently eligible for the purposes of the tax credit for processing activities in the resource regions (old system), excluding the administrative region of Gaspésie—Îles-de-la-Madeleine (region 11).[21]

In addition, such eligible corporation that carries on a certified business in one of the regions mentioned below may benefit, regarding the increase in payroll attributable to such certified business, from the new system relating to the tax credit for processing activities in the resource regions for an additional period of three years, i.e. for calendar years 2013 to 2015. The rate of the tax credit applicable for these calendar years will also be 10%.

The regions covered by this additional period are the territories included in the following administrative regions:

— the eastern portion of Bas-Saint-Laurent (region 01), consisting of the La Matapédia RCM, the Matane RCM and the La Mitis RCM;

— in Saguenay–Lac-Saint-Jean (region 02): the Maria-Chapdelaine RCM, the Le Fjord-du-Saguenay RCM and the Le Domaine-du-Roy RCM;

— in Mauricie (region 04): the La Tuque agglomeration, the Mékinac RCM and the city of Shawinigan;

— in Outaouais (region 07): the La Vallée-de-la-Gatineau RCM and the Pontiac RCM;

21 To that effect, see the changes announced in relation to the withdrawal of the Gaspésie—Îles-de-la-Madeleine region for the purposes of the tax credit for processing activities in resource regions on page 24 of this information bulletin.

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— in Laurentides (region 15): the Antoine-Labelle RCM.

For greater clarity, the regions mentioned below will not be eligible for this additional period of three years for the purposes of the new system relating to the tax credit for processing activities in the resource regions, namely:

— the western portion of Bas-Saint-Laurent (region 01), consisting of the Rivière-du-Loup RCM, the Rimouski-Neigette RCM, the Témiscouata RCM, the Kamouraska RCM and the Les Basques RCM;

— in Saguenay–Lac-Saint-Jean (region 02): the Lac-Saint-Jean-Est RCM and the city of Saguenay;

— in Mauricie (region 04): the city of Trois-Rivières, the Maskinongé RCM and the Les Chenaux RCM.

A corporation eligible for the new system relating to the tax credit for processing activities in the resource regions may, if it satisfies the conditions otherwise applicable to that effect, claim the investment tax credit for the eligible investments it makes as of the taxation year where the corporation becomes eligible to the new system relating to the tax credit for processing activities in the resource regions and before January 1, 2016.

An eligible corporation may thus benefit from an increased rate of the investment tax credit of up to 20%, 30% or 40% of the amount of the eligible investment depending on where such investment is made.

For greater clarity, all the other rules that currently apply to the investment tax credit, in particular those concerning the $75-million cumulative limit and those concerning paid-up capital that have an effect on the rate of the tax credit and its refundability, including the changes announced in this information bulletin, will apply to determine the investment tax credit to which an eligible corporation is entitled.

■ Impact of the extension on the determination of the tax credit

For the purposes of determining the increase in the eligible payroll of the corporation under the new system relating to the tax credit for processing activities in the resource regions, the reference calendar year of an eligible corporation will be the one that applied for the determination of the tax credit for processing activities in the resource regions for calendar year 2009 or that would have applied had the corporation claimed such tax credit for calendar year 2009.[22]

In addition, a 2% annual indexing factor regarding each of the additional calendar years of eligibility will be considered in determining the tax credit, taking into account the indexing factor already applicable for calendar years 2008 to 2010. Accordingly, the total wages paid by a corporation to its eligible employees must be reduced by 6% for calendar year 2010. It must be reduced by 8% for calendar year 2011, by 10% for calendar year 2012, by 12% for calendar year 2013, by 14% for calendar year 2014 and by 16% for calendar year 2015.

■ Election to benefit from the old system

A corporation that, as at December 31, 2009, is eligible for the tax credit for processing activities in the resource regions may, for its taxation year including December 31, 2010, irrevocably elect to remain eligible for the tax credit for processing activities in the resource regions according to the terms and conditions currently applicable (old system). Accordingly, such an eligible corporation may receive the tax credit for processing activities in the resource regions at the 30% rate, but only until December 31, 2010. Therefore, it will not receive the tax credit for processing activities in resource regions for subsequent calendar years, as the old system stipulates. In such a case, such eligible corporation can receive the investment tax credit only for its eligible investments made as of the taxation year following the one that includes December 31, 2010.

Making this election will irrevocably withdraw the corporation entitlement to benefit from the new system relating to the tax credit for processing activities in the resource regions for calendar year 2010 and subsequent calendar years.

For greater clarity, an eligible corporation that, on the filing deadline applicable to it for its taxation year that includes December 31, 2010, has not elected to remain subject to the tax credit for processing activities in the resource regions according to the current terms and conditions (old system), will automatically be subject to the new system relating to the tax credit for processing activities in the resource regions.

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22 Such may be the case, for instance, with a corporation that did not claim a tax credit for calendar year 2009 because its payroll did not increase.

Where a given corporation, eligible for the tax credit for processing activities in the resource regions (old system), is associated, during a taxation year, with one or more other corporations eligible for one of the three refundable tax credits allowed in the resource regions (old system), the election to remain subject to any of these three tax credits (old system) for calendar year 2010 must be made jointly by such corporations. Such election must be filed no later than whichever of the filing deadlines applicable to such corporations occurs first.

Making this election will irrevocably withdraw the entitlement of the eligible corporation and of the corporations with which it is associated to benefit from the new system relating to the tax credit for processing activities in the resource regions, the tax credit for the Vallée de l'aluminium and the tax credit for Gaspésie and certain maritime regions of Québec for calendar year 2010 and subsequent calendar years.

- **Corporation electing to benefit from the investment tax credit for manufacturing and processing equipment following the March 13, 2008 Budget Speech**

A corporation that elected to benefit, in lieu of the tax credit for processing activities in the resource regions, from the investment tax credit regarding a taxation year ending after March 13, 2008, may benefit, as of calendar year 2010, from the new system relating to the tax credit for processing activities in the resource regions and continue to benefit from the investment tax credit for eligible investments made before January 1, 2016.

In that case, the reference calendar year of the corporation, for calendar year 2010 and subsequent calendar years, will correspond to the reference calendar year of the corporation that applied for the purposes of determining the increase in its payroll when it claimed the tax credit for processing activities in resource regions for the last time.

- **Other terms and conditions applicable to the new system relating to the tax credit for processing activities in the resource regions**

For greater clarity, the other terms and conditions applicable to the tax credit for processing activities in the resource regions (old system) will apply to the new system relating to the tax credit for processing activities in the resource regions.

❑ Limit on tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in the resource regions (new system)

The tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in the resource regions (new system) a corporation may receive, for a taxation year beginning after December 31, 2009, may not exceed, in total, the amount obtained by adding a basic amount of $50 000 (subject to division among associated corporations) and an amount corresponding to 5% of the corporation's gross income attributable to the resource regions for the given taxation year.

A corporation whose total amount of tax assistances relating to the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in the resource regions (new system) is less than its tax assistances limit for a taxation year may not carry forward the unused portion of its tax assistances limit to another taxation year.

Similarly, the amount of tax assistances relating to the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in the resource regions (new system) that a corporation could have claimed during a taxation year, were it not for its tax assistances limit, may not be claimed by the corporation in another taxation year.

■ Basic amount of $50 000

The basic amount for calculating the limit on the tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in the resource regions (new system) for a corporation, for a taxation year, is $50 000.

However, where a corporation eligible for the tax holiday for manufacturing SMEs in remote resource regions, the new system relating to the tax credit for processing activities in the resource regions or both these measures, is associated with one or more corporations that may be entitled to either or both of these measures, during a taxation year, such basic amount of $50 000 must be covered by an agreement, within the group of associated corporations, on its utilization by the eligible corporation for the taxation year and by the other member corporations of the group of associated corporations.

Accordingly, the basic amount of an eligible corporation, for a taxation year, may not exceed an amount of $50 000 reduced by the sum of the amounts attributed to the corporations with which the corporation is associated and in relation to a taxation year of such associated corporations ending during the taxation year of the eligible corporation or on the same date.

In addition, if an eligible corporation's taxation year has fewer than 51 weeks, its basic amount for the taxation year will be equal to $50 000 or, should the corporation be associated with other corporations during such taxation year, to the basic amount attributed to it, multiplied by the fraction represented by the number of days in the taxation year divided by 365.

■ Gross income attributable to the resource regions

A corporation's gross income attributable to the resource regions, for a given taxation year, corresponds to the amount obtained by applying the following formula:

$$\text{GIARR} = \text{Gross income of the corporation for the given taxation year} \times \frac{\text{Wages and salaries paid to employees of an establishment of the corporation located in a resource region in the given taxation year}}{\text{Wages and salaries paid to employees of the corporation in the given taxation year}}$$

In this formula, GIARR means the corporation's gross income attributable to the resource regions.

The rules regarding the reporting of an employee to an establishment, stipulated in the Taxation Act for the purposes of the tax credit for job creation in the resource regions, in the Vallée de l'aluminium and in Gaspésie and certain maritime regions of Québec, will apply to decide whether an employee of a corporation is an employee of an establishment of such corporation in a resource region.

Where 90% or more of the wages and salaries paid by the corporation, for a taxation year, is attributable to employees who work in an establishment of the corporation located in a resource region, all the corporation's gross income, for such taxation year, will be deemed gross income attributable to the resource regions, for such taxation year.

The resource regions covered by this formula are the eligible resource regions, for the calendar year ending in the taxation year concerned, for the purposes of the new system relating to the tax credit for processing activities in the resource regions.

■ Examples of the application of the limit on tax assistance

As indicated above, the limit on the tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in the resource regions (new system) of a corporation, corresponds, for a given taxation year, to the amount obtained by adding to the basic amount of the corporation for such taxation year, an amount equal to 5% of the corporation's gross income attributable to the resource regions for such taxation year.

Where, during a taxation year, the total amount of tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in the resource regions (new system) an eligible corporation could receive exceeds its tax assistance limit for such taxation year, the corporation may choose the tax assistance it wishes to receive, up to the amount of its tax assistance limit for such taxation year.

- **Example in the case of a corporation receiving only the tax credit for processing activities in resource regions (new system) and whose gross income is not entirely attributable to the resource regions**

A corporation eligible only for the tax credit for processing activities in resource regions (new system), not associated with any other corporation and having, for its taxation year ending December 31, 2010 (365 days), gross income of $5.2 million, total wages and salaries paid to its employees of $2.4 million and wages and salaries paid to its employees of an establishment located in a resource region of $1.8 million, will have a tax assistances limit for such taxation year of $245 000.[23]

Had the total amount of such corporation's tax credit for processing activities in the resource regions (new system), otherwise calculated, for such taxation year been $300 000, since this amount exceeds the tax assistance limit, the amount of the tax credit for processing activities in the resource regions (new system) that the corporation may effectively claim would be limited to $245 000. The amount of $55 000 that exceeds the tax assistances limit for such taxation year may in no way be carried over.

- **Example in the case of a corporation receiving the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in resource regions (new system) and whose gross income is entirely attributable to the resource regions**

A corporation eligible for the tax holiday for manufacturing SMEs in remote resource regions and the tax credit for processing activities in resource regions (new system) that is not associated with another corporation and having, for its taxation year ending December 31, 2010 (365 days), gross income of $1.7 million attributable entirely to the resource regions will have a tax assistance limit for such taxation year of $135 000.[24]

Assuming the total amount of the tax assistance such corporation could otherwise have obtained exceeds $135 000, it will have to choose the tax assistance it wishes to claim, without exceeding its tax assistances limit of $135 000. If, for instance, it chooses to receive tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions for an amount of $55 000, the maximum amount of the tax credit for processing activities in the resource regions (new system) the corporation may then claim will be $80 000.

- **Clarifications relating to the calculation of tax assistance**

For the purposes of a corporation's tax assistance limit, for a given taxation year, the corporation's tax assistance relating to the tax holiday for manufacturing SMEs in remote resource regions corresponds to the total of the amounts of tax assistance, for such taxation year, on account of income tax, tax on capital and employer contributions to the HSF.

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23 Corresponding to $50 000 + (5% of $5.2 million x ($1.8 million / $2.4 million)).

24 Corresponding to $50 000 + (5% of $1.7 million).

Moreover, taking into account the possibility that a corporation may benefit from reduced tax rate (8%) on the portion of its taxable income giving rise to the small business deduction and a higher rate (11.9%) on the portion of its taxable income that does not give rise to such deduction, the amount of tax assistance on account of a corporation's income tax, for a taxation year, will be calculated by applying to the amount of the deduction in the calculation of taxable income on account of the tax holiday for manufacturing SMEs in remote resource regions, for such taxation year, the tax rate or rates that would be applied had the amount constituted additional taxable income of the corporation for such taxation year.

❑ Withdrawal of the administrative region of Gaspésie—Îles-de-la-Madeleine as a region eligible for the tax credit for processing activities in the resource regions

The notion of eligible region for the purposes of the tax credit for processing activities in the resource regions (old system), as well as for the new system relating to the tax credit for processing activities in the resource regions, will be changed to exclude, as of calendar year 2010, the administrative region of Gaspésie—Îles-de-la-Madeleine.

Accordingly, a corporation carrying on, in the administrative region of Gaspésie—Îles-de-la-Madeleine, a certified business for the purposes of the tax credit for processing activities in the resource regions, will cease being eligible for this tax credit as of calendar year 2010.[25]

❑ Withdrawal of eligibility of certain activities for the administrative regions of Bas-Saint-Laurent and Côte-Nord

The notion of certified business, for the purposes of the tax credit for processing activities in the resource regions (old and new systems), will be changed to exclude, as of calendar year 2010, a business whose activities consist of:

— the manufacturing and processing of finished or semi-finished products from peat;

— the manufacturing and processing of finished or semi-finished goods from slate.

Commercialization activities incidental to these activities will also be excluded from the notion of certified business.

This exclusion will apply only to businesses carried on in the administrative region of Bas-Saint-Laurent or the administrative region of Côte-Nord.

25 A corporation that carries on a certified business in the administrative region of Gaspésie—Îles-de-la-Madeleine and which is eligible for the tax credit for processing activities in the resource regions as at December 31, 2009 is eligible for the tax credit for Gaspésie and certain maritime regions of Québec with regards to such certified business. The impacts relating to this change to the fiscal measure are dealt with on page 35 of this information bulletin.

Henceforth, in these two administrative regions these activities will be covered by the tax credit for Gaspésie and certain maritime regions of Québec (old and new systems).[26]

3.3.2 Tax credit for the Vallée de l'aluminium

Old system relating to the tax credit for the Vallée de l'aluminium

Briefly, a corporation eligible for the tax credit for the Vallée de l'aluminium can receive this tax credit until December 31, 2015. This tax credit is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation that carries on a certified business in the administrative region of Saguenay–Lac-Saint-Jean.

For the purposes of the tax credit, a certified business means a business for which Investissement Québec issued an eligibility certificate and whose activities consist, in particular, in making finished or semi-finished products from aluminum which has already undergone primary processing.

To determine its refundable tax credit for a given calendar year, an eligible corporation must compare its payroll attributable to its eligible employees for such given calendar year with that of its reference calendar year. In determining the increase in its payroll, the corporation eligible for the tax credit for the Vallée de l'aluminium need not include an adjustment for indexing.

An eligible corporation that began carrying on its certified business no later than March 31, 2008 can claim this tax credit until December 31, 2010 at the 30% rate, and the increase in its payroll is determined on the basis of the payroll attributable to its eligible employees for the calendar year preceding the one when it began to carry on its certified business (reference calendar year). For calendar years 2011 to 2015, such a corporation can receive the tax credit for the Vallée de l'aluminium at a rate of 20%. However, the reference calendar year of the eligible corporation is changed and then corresponds to calendar year 2010. In that case, such eligible corporation can receive the investment tax credit, for its eligible investments made as of such taxation year, and the tax credit for the Vallée de l'aluminium, only for the taxation year following the one that includes December 31, 2010. The rate of the investment tax credit, for an eligible investment made in the administrative region of Saguenay–Lac-Saint-Jean, can reach 20%.

The terms and conditions of the tax credit for the Vallée de l'aluminium, as summarized above, are defined in this information bulletin as the old system.

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26 See the changes announced in relation to the addition of eligible activities for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec on page 37 of this information bulletin.

Election stipulated in the March 13, 2008 Budget Speech

In the case where an eligible corporation wishes to receive the investment tax credit sooner, it may elect to claim this tax credit as of a taxation year ending after March 13, 2008 and for subsequent taxation years. For its calendar year ending in the taxation year of such election, as well as for subsequent calendar years, the corporation may then receive, in addition to the investment tax credit, the tax credit for the Vallée de l'aluminium at the reduced rate of 20%. The reference calendar year of the corporation, for the purposes of the tax credit for the Vallée de l'aluminium, is then changed to correspond to the calendar year preceding the one in respect of which the election is made. Making this election irrevocably withdraws the right to the tax credit for the Vallée de l'aluminium at the 30% rate that the corporation could have claimed for the calendar year ending in the taxation year of such election and for subsequent calendar years.

Moreover, where a corporation eligible for the tax credit for the Vallée de l'aluminium is associated, during a taxation year, with another corporation that is already eligible for any of the three refundable tax credits allowed in the resource regions, the election to claim the two types of assistance, for a taxation year ending after March 13, 2008, must be made jointly by the eligible corporation and by any other corporation with which it is associated. Making this election irrevocably withdraws the right to the tax credit at the 30% rate that the member corporations of the group of associated corporations could have claimed for the calendar year ending in the taxation year regarding which the election is made ends, and for subsequent calendar years.

Corporation that becomes eligible for the tax credit for the Vallée de l'aluminium after March 31, 2008

A corporation eligible for the tax credit for the Vallée de l'aluminium that began to carry on its certified business after March 31, 2008, but no later than December 31, 2015, can claim the tax credit for the Vallée de l'aluminium at the 20% rate until December 31, 2015. Generally,[27] its reference calendar year corresponds to the calendar year preceding the one in which it began to carry on its certified business. Such an eligible corporation may also claim the investment tax credit.

❑ New system relating to the tax credit for the Vallée de l'aluminium

A corporation that, as at December 31, 2009, is eligible for the tax credit for the Vallée de l'aluminium will be eligible, as of calendar year 2010, for the new system relating to the tax credit for the Vallée de l'aluminium. Similarly, a corporation that begins to carry on its certified business after December 31, 2009 in one of the sectors targeted by the tax credit for the Vallée de l'aluminium will be eligible for the new system relating to the tax credit for the Vallée de l'aluminium.

27 Supra, note 14.

- **Impact of the new system on the determination of the tax credit and application of the investment tax credit for manufacturing and processing equipment**

A corporation eligible for the new system relating to the tax credit for the Vallée de l'aluminium can receive this tax credit until December 31, 2015 at the 20% rate. This 20% rate will apply as of calendar year 2010.

Under the new system relating to the tax credit for the Vallée de l'aluminium, for the purposes of determining the increase in the eligible payroll of a corporation that, as at December 31, 2009, is eligible for the tax credit for the Vallée de l'aluminium, the reference calendar year of such corporation will be the one that applied for the determination of the tax credit for the Vallée de l'aluminium for calendar year 2009 or that would have applied had the corporation claimed such tax credit for calendar year 2009.[28] Such reference calendar year will apply for the purposes of determining the increase in payroll for calendar year 2010 and subsequent calendar years.

For greater clarity, the reference calendar year of a corporation that begins to carry on its certified business after December 31, 2009 corresponds to the calendar year preceding the one in which it began to carry on its certified business.

No adjustment in relation to the application of an annual indexing factor will be considered for the determination of the refundable tax credit for the Vallée de l'Aluminum.

A corporation eligible for the new system relating to the tax credit for the Vallée de l'aluminium may, if it satisfies the conditions otherwise applicable to that effect, claim the investment tax credit for the eligible investments it makes as of the taxation year where the corporation becomes eligible to the new system relating to the tax credit for the Vallée de l'aluminium and before January 1, 2016. It may thus benefit from an increased rate of the investment tax credit of up to 20%[29] of the amount of the eligible investment.

For greater clarity, all the other rules that currently apply to the investment tax credit, in particular those concerning the $75-million cumulative limit and those concerning paid-up capital that have an effect on the rate of the tax credit and its refundability, including the changes announced in this information bulletin, will apply to determine the investment tax credit to which an eligible corporation is entitled.

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28 Supra, note 22.

29 This increased rate of the investment tax credit applies to investments made in the administrative region of Saguenay–Lac-Saint-Jean.

- **Election to benefit from the old system**

A corporation that began to carry on its certified business no later than March 31, 2008 and is eligible for the tax credit for the Vallée de l'aluminium on December 31, 2009 may, for its taxation year including December 31, 2010, irrevocably elect to remain eligible for the tax credit for the Vallée de l'aluminium at the 30% rate, but only until December 31, 2010 (old system). In such a case, such eligible corporation can receive the investment tax credit only for its eligible investments made as of the taxation year following the one that includes December 31, 2010.

Accordingly, for calendar years 2011 to 2015, such a corporation can receive the tax credit for the Vallée de l'aluminium at the 20% rate. However, the reference calendar year of the eligible corporation will be changed and correspond to calendar year 2010.

Making this election will irrevocably withdraw the corporation's right to benefit from the new system relating to the tax credit for the Vallée de l'aluminium for calendar year 2010 and subsequent calendar years.

For greater clarity, an eligible corporation that, on the filing deadline applicable to it for its taxation year that includes December 31, 2010, has not elected to remain subject to the tax credit for the Vallée de l'aluminium (old system), will automatically be subject to the new system relating to the tax credit for the Vallée de l'aluminium.

Where a given corporation, eligible for the tax credit for the Vallée de l'aluminium (old system), is associated, during a taxation year, with one or more other corporations eligible for one of the three refundable tax credits allowed in the resource regions (old system), the election to remain subject to any of these three tax credits (old system) for calendar year 2010 must be made jointly by such corporations. Such election must be filed no later than whichever of the filing deadlines applicable to such corporations occurs first.

Making this election will irrevocably withdraw the entitlement of the eligible corporation and of the corporations with which it is associated to benefit from the new system relating to the tax credit for the Vallée de l'aluminium, the tax credit for processing activities in the resource regions and the tax credit for Gaspésie and certain maritime regions of Québec for calendar year 2010 and subsequent calendar years.

- **Corporation electing to benefit from the investment tax credit for manufacturing and processing equipment following the March 13, 2008 Budget Speech**

A corporation that elected to benefit from the investment tax credit regarding a taxation year ending after March 13, 2008, may benefit from the new system relating to the tax credit for the Vallée de l'aluminium at the 20% rate and continue to benefit from the investment tax credit for eligible investments made before January 1, 2016.

In that case, the reference calendar year of the corporation, for calendar year 2010 and subsequent calendar years, will correspond to the reference calendar year of the corporation that applied for the purposes of determining the increase in payroll before it elected to benefit from the investment tax credit.

However, the corporation may elect to keep, as its reference calendar year, the calendar year preceding the one in respect of which it made the election stipulated in March 13, 2008 Budget Speech.

This election relating to the reference calendar year must be made by the corporation no later than the filing date applicable to it for its taxation year including December 31, 2010.

- **Other terms and conditions applicable to the new system relating to the tax credit for the Vallée de l'aluminium**

For greater clarity, the other terms and conditions applicable to the tax credit for the Vallée de l'aluminium (old system) apply to the new system relating to the tax credit for the Vallée de l'aluminium.

3.3.3 Tax credit for Gaspésie and certain maritime regions of Québec

Old system relating to the tax credit for Gaspésie and certain maritime regions of Québec

In general, the tax credit for Gaspésie and certain maritime regions of Québec is granted regarding the increase in payroll attributable to the eligible employees of an eligible corporation carrying on a certified business in the administrative regions of Gaspésie—Îles-de-la-Madeleine, Côte-Nord,[30] Bas-Saint-Laurent[31] and in the Matane RCM,[32] until December 31, 2015.

To be eligible for this tax credit, a corporation must carry on a certified business, i.e. a business regarding which Investissement Québec has issued an eligibility certificate and whose activities are carried out in the marine or wind-power resources development sectors, or the manufacturing sector, subject to the specific features applicable to each administrative region.

30 The Côte-Nord administrative region is an eligible region only regarding processing of sea products activities and activities carried out in the marine biotechnology and sea farming sectors.

31 The Bas-Saint-Laurent administrative region other than the Matane RCM is an eligible region only regarding activities carried out in the marine biotechnology and sea farming sectors.

32 The Matane RCM is an eligible region only regarding of sea products processing activities, activities carried out in the marine biotechnology and sea farming sectors and activities carried out in the wind-power resources sector.

Generally, to determine its refundable tax credit for a given calendar year, an eligible corporation must compare its payroll attributable to its eligible employees for such given calendar year with that of its reference calendar year. In determining the increase in payroll, the corporation eligible for the tax credit for Gaspésie and certain maritime regions of Québec need not include an adjustment for indexing.

An eligible corporation that began carrying on its certified business in the marine or wind-power resources sectors no later than March 31, 2008 can claim this tax credit until December 31, 2010 at the 40% rate, and the increase in its payroll is determined on the basis of the payroll attributable to its eligible employees for the calendar year preceding the one when it began to carry on its certified business (reference calendar year). For calendar years 2011 to 2015, such a corporation can receive the tax credit for Gaspésie and certain maritime regions of Québec at the 20% rate. However, the reference calendar year of the eligible corporation is changed and then corresponds to calendar year 2010. In that case, it is only as of the taxation year following the one that includes December 31, 2010 that such eligible corporation can receive the investment tax credit, for eligible investments made as of such taxation year, and the tax credit for Gaspésie and certain maritime regions of Québec. The rate of the investment tax credit, for an eligible investment made in one of the regions eligible for the tax credit for Gaspésie and certain maritime regions of Québec, may reach 30% or 40%, depending on where the investment is made.

The terms and conditions of the tax credit for Gaspésie and certain maritime regions of Québec, as summarized above, are defined in this information bulletin as the old system.

Election stipulated in the March 13, 2008 Budget Speech

In the case where an eligible corporation wishes to receive the investment tax credit sooner, it may elect to claim this tax credit as of a taxation year ending after March 13, 2008 and for subsequent taxation years. For its calendar year ending in the taxation year of such election, as well as for subsequent calendar years, the corporation may then receive, in addition to the investment tax credit, the tax credit for Gaspésie and certain maritime regions of Québec at the reduced rate of 20%. The reference calendar year of the corporation, for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec, is then changed to correspond to the calendar year preceding the one in respect of which the election is made. Making this election irrevocably withdraws the right to the tax credit for Gaspésie and certain maritime regions of Québec at the 40% rate that the corporation could have claimed for the calendar year ending in the taxation year of such election and for subsequent calendar years.

Moreover, where a corporation eligible for the tax credit for Gaspésie and certain maritime regions of Québec is associated, during a taxation year, with another corporation that is already eligible for any of the three refundable tax credits allowed in the resource regions, the election to claim the two types of assistance, for a taxation year ending after March 13, 2008, must be made jointly by the eligible corporation and by any other corporation with which it is associated. Making this election irrevocably withdraws the right to the tax credit at the 40% rate that the member corporations of the group of associated corporations could have claimed for the calendar year ending in the taxation year regarding which the election is made ends, and for subsequent calendar years.

Corporation that becomes eligible for the tax credit for Gaspésie and certain maritime regions of Québec after March 31, 2008

A corporation eligible for the tax credit for Gaspésie and certain maritime regions of Québec that began to carry on its certified business after March 31, 2008 but no later than December 31, 2015, can claim the tax credit for Gaspésie and certain maritime regions of Québec at the 20% rate until December 31, 2015. Generally,[33] its reference calendar year corresponds to the calendar year preceding the one in which it began to carry on its certified business. Such an eligible corporation may also claim the investment tax credit.

Corporation carrying on certified business in manufacturing activities sector

Where a corporation began, during calendar year 2008 or a subsequent calendar year, to carry on a certified business for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec in the manufacturing sector, following the broadening of the notion of certified business for the purposes of this tax credit, such corporation may receive such tax credit at the rate of 20% until 2015. The reference calendar year of the corporation generally corresponds to the calendar year preceding the one in which it began to carry on such certified business for the purposes of such tax credit. Such a corporation may receive the investment tax credit as of the taxation year in which the calendar year when it begins to carry on such certified business ends.

33 Supra, note 14.

Corporation carrying on a certified business in the sea farming or marine biotechnology sector

Special terms and conditions apply where an eligible corporation carries on a certified business in the sectors of sea farming or manufacturing of finished or semi-finished products in the marine biotechnology field. In such a case, the tax credit is allowed on the total payroll attributable to eligible employees of such certified business, rather than its increase, until December 31, 2015. In addition, an eligible corporation operating in the sea farming sector or in the manufacturing of finished or semi-finished products in the marine biotechnology field that is otherwise eligible for the investment tax credit for manufacturing and processing equipment, may exceptionally claim these two assistance mechanisms for a taxation year ending after March 31, 2008.

❑ New system relating to the tax credit for Gaspésie and certain maritime regions of Québec

A corporation that, as at December 31, 2009, is eligible for the tax credit for Gaspésie and certain maritime regions of Québec, other than an eligible corporation regarding its certified business carried on in the sectors of sea farming or the manufacturing of finished or semi-finished products in the marine biotechnology field, will be eligible, as of calendar year 2010, for the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec.

Similarly, a corporation that begins carrying on its certified business after December 31, 2009, in one of the sectors covered by the tax credit for Gaspésie and certain maritime regions of Québec, other than the sectors of sea farming or the manufacturing of finished or semi-finished products in the marine biotechnology field, will be eligible for the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec.

■ Impact of the new system on the determination of the tax credit and application of the investment tax credit for manufacturing and processing equipment

A corporation eligible for the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec can claim this tax credit at the 20% rate until December 31, 2015. This 20% rate will apply as of calendar year 2010.

Under the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec, for the purposes of determining the increase in the eligible payroll of a corporation that, as at December 31, 2009, is eligible for the tax credit for Gaspésie and certain maritime regions of Québec, the reference calendar year of such corporation will be the one that applied for the determination of the tax credit for Gaspésie and certain maritime regions of Québec for calendar year 2009 or that would have applied had the corporation claimed such tax credit for calendar year 2009.[34] Such reference calendar year will apply for the purposes of determining the increase in eligible payroll for calendar year 2010 and subsequent calendar years.

For greater clarity, the reference calendar year of a corporation that begins to carry on its certified business after December 31, 2009 corresponds to the calendar year preceding the one in which it began to carry on its certified business.

No adjustment for the application of an annual indexing factor will be considered for the purposes of the refundable tax credit for Gaspésie and certain maritime regions of Québec.

A corporation eligible for the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec may, if it satisfies the conditions otherwise applicable to that effect, claim the investment tax credit for the eligible investments it makes as of the taxation year where it becomes eligible to the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec and before January 1, 2016. It may thus benefit from an increased rate of the investment tax credit of up to 20%, 30% or 40% of the amount of the eligible investment where such investment is made in one of the regions covered by the tax credit for Gaspésie and certain maritime regions of Québec, depending on where such investment is made.

For greater clarity, all the other rules that currently apply to the investment tax credit, in particular those concerning the $75-million cumulative limit and those concerning paid-up capital that have an effect on the rate of the tax credit and its refundability, including the changes announced in this information bulletin, will apply to determine the investment tax credit to which an eligible corporation is entitled.

■ Election to benefit from the old system

A corporation that began to carry on its certified business no later than March 31, 2008 and is eligible for the tax credit for Gaspésie and certain maritime regions of Québec on December 31, 2009 may, for its taxation year including December 31, 2010, irrevocably elect to remain eligible for the tax credit for Gaspésie and certain maritime regions of Québec at the 40% rate, but only until December 31, 2010 (old system). In such a case, such eligible corporation can receive the investment tax credit only for its eligible investments made as of the taxation year following the one that includes December 31, 2010.

34 Supra, note 22.

Accordingly, such corporation may claim the tax credit for the Gaspésie and certain maritime regions of Québec at the 20% rate for calendar years 2011 to 2015. However, the reference calendar year of the eligible corporation will be changed and correspond to calendar year 2010.

Making this election will irrevocably withdraw the corporation's right to benefit from the new system relating to the tax credit for the Gaspésie and certain maritime regions of Québec for calendar year 2010 and subsequent calendar years.

For greater clarity, an eligible corporation that, on the filing deadline applicable to it for its taxation year that includes December 31, 2010, has not elected to remain subject to the tax credit for Gaspésie and certain maritime regions of Québec (old system), will automatically be subject to the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec.

Where a given corporation, eligible for the tax credit for Gaspésie and certain maritime regions of Québec (old system), is associated, during a taxation year, with one or more other corporations eligible for one of the three refundable tax credits allowed in the resource regions (old system), the election to remain subject to any of these three tax credits (old system) for calendar year 2010 must be made jointly by such corporations. Such election must be filed no later than whichever of the filing deadlines applicable to such corporations occurs first.

Making this election will irrevocably withdraw the entitlement of the eligible corporation and of the corporations with which it is associated to benefit from the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec, the tax credit for processing activities in the resource regions and the tax credit for the Vallée de l'aluminium for calendar year 2010 and subsequent calendar years.

- **Corporation electing to benefit from the investment tax credit for manufacturing and processing equipment following the March 13, 2008 Budget Speech**

A corporation that elects to benefit from the investment tax credit regarding a taxation year ending after March 13, 2008, may benefit from the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec and continue to benefit from the investment tax credit for eligible investments made before January 1, 2016.

In that case, the reference calendar year of the corporation, for calendar year 2010 and subsequent calendar years, will correspond to the reference calendar year of the corporation that applied for the purposes of determining the increase in its payroll before it elected to benefit from the investment tax credit.

However, the corporation may elect to keep, as its reference calendar year, the calendar year preceding the one in respect of which it made the election stipulated in March 13, 2008 Budget Speech.

This election relating to the reference calendar year must be made by the corporation no later than the filing date applicable to it for its taxation year including December 31, 2010.

■ Other terms and conditions applicable to the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec

For greater clarity, the other terms and conditions applicable to the tax credit for Gaspésie and certain maritime regions of Québec (old system) apply to the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec.

❑ Impact of the withdrawal of the administrative region of Gaspésie-Îles-de-la-Madeleine as a region eligible for the tax credit for processing activities in the resource regions

In the March 13, 2008 Budget Speech,[35] the notion of certified business for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec was broadened to also cover, for the administrative region of Gaspésie–Îles-de-la-Madeleine, a business whose activities are manufacturing activities[36] and, incidentally, the commercialization of the results of such activities. Prior to this broadening, the tax credit for Gaspésie and certain maritime regions of Québec only targeted activities in the wind-power or marine resources development sectors.

A corporation that carries on a certified business in the Gaspésie–Îles-de-la-Madeleine region and whose activities are manufacturing activities accordingly can claim the tax credit for Gaspésie and certain maritime regions of Québec at the 20% rate until December 31, 2015.

Accordingly, further to the removal of the Gaspésie–Îles-de-la-Madeleine region from the regions eligible for the tax credit for processing activities in the resource regions, a corporation that carries on, as at December 31, 2009, a certified business in the administrative region of Gaspésie–Îles-de-la-Madeleine in the sector of manufacturing activities or in another sector[37] covered by this tax credit, will be eligible for the tax credit for Gaspésie and certain maritime regions of Québec regarding such certified business. Such corporation will keep the reference calendar year that applied to it under the tax credit for processing activities in the resource regions where it has claimed such tax credit for the last time.

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35 MINISTÈRE DES FINANCES DU QUÉBEC, note 7 above, p. A.74.

36 For reference purposes, the activities grouped under codes 31 to 33 of the North American Industry Classification System (NAICS codes) are generally manufacturing activities for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec. See: MINISTÈRE DES FINANCES DU QUÉBEC, note 7 above, p. A.74.

37 Freshwater aquaculture, for example.

The other terms and conditions applicable to the tax credit for Gaspésie and certain maritime regions of Québec (new system) will apply to the corporation regarding such certified business as of calendar year 2010. The corporation may thus benefit from the tax credit for Gaspésie and certain maritime regions of Québec at the 20% rate until December 31, 2015 and the investment tax credit regarding eligible investments made as of the taxation year where it becomes eligible to the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec and before January 1, 2016.

However, such corporation may elect to be subject to the tax credit for Gaspésie and certain maritime regions of Québec (old system). The applicable terms and conditions will be those relating to this system as announced earlier in this information bulletin,[38] except for the rate of the tax credit for calendar year 2010, which will be 30% for the increase in eligible payroll relating to such certified business. Accordingly, the reference calendar year of the corporation, for calendar year 2010, will be the one that applied when it claimed the tax credit for processing activities in the resource regions for the last time. For calendar years 2011 to 2015, the rate of the tax credit for Gaspésie and certain maritime regions of Québec will be 20% and the corporation's reference calendar year will be 2010. In addition, the corporation may only receive the investment tax credit for its eligible investments made as of the taxation year following the one that includes December 31, 2010.

Lastly, a corporation that ceases being eligible for the tax credit for processing activities in the resource regions because it made the election stipulated in the March 13, 2008 Budget Speech to receive, in lieu of such tax credit, the investment tax credit, will also be eligible for the tax credit for Gaspésie and certain maritime regions of Québec (new system) regarding its certified business carried on in the region of Gaspésie—Îles-de-la-Madeleine that otherwise was a certified business for the purposes of the tax credit for processing activities in the resource regions before it made such election.

In that case, the reference calendar year of the corporation, for calendar year 2010 and subsequent calendar years, will correspond to the reference calendar year of the corporation that applied for the purposes of determining the increase in its payroll before it made the election stipulated in the March 13, 2008 Budget Speech.

However, the corporation may elect to keep, as its reference calendar year, the calendar year preceding the one regarding which it made the election stipulated in March 13, 2008 Budget Speech.

38 See page 33 of this information bulletin.

❑ Addition of eligible activities

For the purposes of the tax credit for Gaspésie and certain maritime regions of Québec (old and new systems), the notion of certified business will be changed as of calendar year 2010, to add for the administrative region of Côte-Nord and the administrative region of Bas-Saint-Laurent, a business whose activities are, other than primary processing activities:

— the manufacturing and processing of finished or semi-finished products from peat;

— the manufacturing and processing of finished or semi-finished goods from slate.[39]

The commercialization activities incidental to these activities will also be eligible activities for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec (old and new systems).

In addition, a corporation eligible for the tax credit for processing activities in the resource regions that, as at December 31, 2009, carries on a certified business whose activities are the manufacturing and processing of finished or semi-finished products from peat or slate, in the administrative regions of Bas-Saint-Laurent or Côte-Nord, and ceases to be eligible for this tax credit as of calendar year 2010, will be eligible for the tax credit for Gaspésie and certain maritime regions of Québec regarding such certified business. Such corporation will keep the reference calendar year that applied to it under the tax credit for processing activities in the resource regions where it has claimed such tax credit for the last time.

The other terms and conditions applicable to the tax credit for Gaspésie and certain maritime regions of Québec (new system) will apply to the corporation regarding such certified business as of calendar year 2010. The corporation may thus benefit from the tax credit for Gaspésie and certain maritime regions of Québec at the 20% rate until December 31, 2015 and the investment tax credit regarding eligible investments made as of the taxation year where it becomes eligible to the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec and before January 1, 2016.

39 Note that manufacturing and processing activities of finished or semi-finished products from peat or slate are already included in the notion of manufacturing activities, eligible in the administrative region of Gaspésie—Îles-de-la-Madeleine for the purposes of the tax credit for Gaspésie and certain maritime regions of Québec.

However, a corporation that began to carry on its certified business in the peat or slate sector no later than March 31, 2008 and that carries on such certified business on December 31, 2009, may elect to keep a 30% tax credit rate regarding such certified business, rather than benefiting from the 20% rate according to the terms and conditions applicable to the tax credit for Gaspésie and certain maritime regions of Québec (new system). In this case, the terms and conditions of the tax credit for processing activities in the resource regions (old system) stipulated in this information bulletin[40] will apply. Accordingly, such a corporation may claim a tax credit at the 30% rate until December 31, 2010 regarding the increase in payroll attributable to its eligible employees in relation to such certified business. This increase in payroll will be determined on the basis of the payroll paid to its eligible employees for its reference calendar year that applied to it when it claimed the tax credit for processing activities in the resource regions for the last time. In addition, such corporation may no longer claim the tax credit based on the increase in its payroll for calendar year 2011 and subsequent calendar years regarding such certified business. Lastly, such eligible corporation may receive the investment tax credit only for its eligible investments made as of the taxation year following the one that includes December 31, 2010.

Making this election will irrevocably withdraw the entitlement of the eligible corporation and of any corporations with which it is associated to benefit from the new system relating to any of the refundable tax credits granted in the resource regions for calendar year 2010 and subsequent calendar years.

Lastly, a corporation that ceases being eligible for the tax credit for processing activities in the resource regions because it made the election stipulated in the March 13, 2008 Budget Speech to receive, in lieu of such tax credit, the investment tax credit, will also be eligible for the tax credit for Gaspésie and certain maritime regions of Québec (new system) regarding its certified business carried on in the peat or slate sector in the Bas-Saint-Laurent or Côte-Nord region that otherwise was a certified business for the purposes of the tax credit for processing activities in the resource regions before it made such election.

❑ Determination of the tax credit for Gaspésie and certain maritime regions of Québec tax credit for corporations carrying on a certified business in the sea farming, marine biotechnology and sea products processing sectors

Where an eligible corporation carries on a certified business in the sea farming sector or the manufacturing of finished or semi-finished products in the marine biotechnology field, the tax credit is granted on the total payroll attributable to eligible employees, rather than the increase in such payroll, until December 31, 2015.

40 See page 19 of this information bulletin.

A corporation carrying on a certified business in the sea products processing sector determines the amount of the tax credit for Gaspésie and certain maritime regions of Québec to which it is entitled on the basis of the increase in payroll attributable to its eligible employees. Such a corporation may also receive such tax credit until December 31, 2015.

■ Clarifications concerning the sea farming and marine biotechnology sectors

The new system relating to the tax credit for Gaspésie and certain maritime regions of Québec will not apply to eligible corporations that carry out activities in sea farming or the manufacturing of finished or semi-finished products in the marine biotechnology field. The current terms and conditions of the tax credit for Gaspésie and certain maritime regions of Québec remain unchanged regarding these activity sectors. Accordingly, a corporation carrying on a certified business in these activity sectors will continue to calculate its tax credit on the total payroll paid to its eligible employees in relation to these activity sectors.

In addition, an eligible corporation operating in any of these sectors that is otherwise eligible for the investment tax credit for manufacturing and processing equipment may continue to claim these two assistance mechanisms for a taxation year ending after March 31, 2008.

■ Sea products processing sector

Like the terms and conditions that currently apply for determining the tax credit for Gaspesie and certain maritime regions of Québec, regarding a certified business carried on the sea farming sector or the manufacturing of finished or semi-finished products in the marine biotechnology field, a corporation that carries on a certified business in the sea products processing sector may, for calendar year 2010 and subsequent calendar years, calculate its tax credit on the total payroll paid to its eligible employees in relation to such certified business, rather than regarding the increase in such payroll, once it is eligible for the tax credit for Gaspésie and certain maritime regions of Québec (new system).

The other terms and conditions applicable to the tax credit for Gaspésie and certain maritime regions of Québec (new system) will also apply to such corporation. It will thus be able to claim this tax credit and the investment tax credit for the eligible investments it makes as of the taxation year it becomes eligible to the new system relating to the tax credit for Gaspésie and certain maritime regions of Québec[41] and before January 1, 2016.

41 Such a corporation can receive the investment tax credit only for eligible investments made during a prior taxation year in the case where it makes the election to that effect, stipulated in the March 13, 2008 Budget Speech.

However, a corporation carrying on a certified business in the sea products processing sector that makes the election stipulated in this information bulletin to remain eligible for the old system in relation to the tax credit for Gaspésie and certain maritime regions of Québec, must, for calendar year 2010, calculate its tax credit on the increase in payroll attributable to its eligible employees in relation to such certified business, according to the same rules as for prior calendar years. In that case, such a corporation may calculate its tax credit on the total payroll paid to its eligible employees in relation to such certified business only as of calendar year 2011, and for subsequent calendar years.

In addition, such corporation may claim the investment tax credit only for the eligible investments it makes as of its taxation year following the one that includes December 31, 2010 and before January 1, 2016.